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TAGS: ECON EINV EIND PGOV PREL RS

SUBJECT: RUSSIA: REYMAN'S RIO-CENTER LOOKS FOR ALTERNATIVE
ECONOMIC COURSE

Classified By: Econ M/C Pamela Quanrud. Reasons 1.4 (b/d).

¶1. (C) Summary. Six months before the Duma elections and nine months before the Presidential contest, several economic think-tankers are laying out strategies for the post-Putin period. Most of these plans are descriptive, not prescriptive: they are critical of the government's record on modernizing and diversifying the economy, but lack specifics on how to right the course. Surprisingly, most think-tankers do not shy away from using the word liberal to describe their orientation - though their liberalism is qualified as "pragmatic," in contrast to the "ideological liberals" in the government today and many actually envision an even stronger role for the state in the economy. The think tanks hope to mirror the experience of German Gref's Center for Strategic Research (CSR) and shape economic policy in the next presidential administration. End summary.

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¶2. (SBU) We recently met with three of these informal policy advisors, Leonid Grigoriev, President of the Institute of Energy and Finance, Iosef Diskin, head of the Council of National Strategy, and Ruslan Grinberg, head of the Russian Academy of Science Institute of Economics. These three were keynote presenters at a recent conference sponsored by the Center for the Development of an Information Society, or the RIO center, which has ties to Communications Minister Leonid Reyman. Over the upcoming months, we will meet with other leading economic think tanks to help identify the economic policy direction of the next administration and possible candidates for Ministers Gref and Kudrin's positions.

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THE THINK TANKS

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¶3. (SBU) When Putin became Prime Minister in 1999, he established the CSR, with German Gref as its head, to develop an economic reform program and put the Russian economy onto a market path. Over the past eight years, the Center has been the center of economic legislation drafting or has contributed to drafts of Putin's key reforms, including the flat tax, land privatization, pension reform, health care, benefits monetization, and the public private partnership initiative. However, when the reform momentum slowed, the CSR's role in economic policy-making also diminished.

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¶4. (SBU) The first think tank in our study is the RIO center, a think tank with ties to Communications Minister Leonid

Reyman and headed by Igor Yurgens, also the Vice President of the Russian Union of Industrialists and Entrepreneurs and a Vice President at Renaissance Capital. The center was established in 2003 with Reyman as its head. According to its website, it's mission is to promote the development of an information society in Russia. However, the center's activities have been broadened and last year, under Yurgen's leadership, the center launched a program to map out a modernization strategy for the country. On May 16, the RIO center organized a conference on "Alternative Modernization Strategies for the Russian Economy" and commissioned three reports from Grigoriev, Diskin, and Grinberg. According to the RIO center website and our contacts, the two front-runners for the 2008 presidential elections, Dmitriy Medvedev and Sergey Ivanov, were to attend the May 16 conference, but were no shows.

• 15. (SBU) Opening the conference, Yurgens characterized the three reports as liberal (Grigoriev), moderate (Diskin) and conservative (Grinberg). The conference was well attended by well-known economic researchers, and present and former government officials, including: Yevgeniy Yasin (the Higher School of Economics and former Economics Minister), Yevgeniy Gontmakher (former Deputy Social Development Minister), Andrey Klepac (Ministry of Economic Development and Trade), Elvira Nabiullina (head of Dep. Premier Medvedev's Expert Council on Realization of National Priority Projects and former head of CSR).

• THREE ALTERNATIVE MODELS

• 16. (C) Iosef Diskin heads the Council of National Strategy.

MOSCOW 00002527 002 OF 003

This group gained notoriety during the Yukos Affair when they published a report on the growing influence of oligarchs in the economy that played out like a Kremlin manual to deal with oligarchs with political aspirations. In his presentation, which also mirrored his discussion with us, Diskin lays out a modernization strategy that provides political prerequisites rather than concrete policies for economic development. He told us that his main criticism of the current economic course was the disconnect between the government's reforms and the population's real needs, and cited the housing reform passed last year -- which did not address, in his opinion, the acute lack of affordable housing -- as an example. He advocated building a national coalition -- including government, business, and society -- as the first step to modernization. Diskin was also the least concerned out of the three authors about the economy's dependence on energy and even called for strengthening Russia's position as an energy superpower. Diskin also favored using the Stabilization Fund for investments into energy infrastructure projects, such as oil and gas pipelines, power stations, and electrical grids.

• 17. (SBU) Ruslan Grinberg also criticized current economic policies as liberal dogmatism with Putin's economic ministers too reliant on market mechanisms and low inflation, instead of advancing a comprehensive state industrial policy, to drive Russia's modernization forward. He said economic policies from the 1990s to Putin's Administration have resulted in the "primitivization" of the economy and advocated a more interventionist state, employing preferential taxes and import tariffs to protect and nurture strategic industries. He saw Russia's comparative advantage in the following sectors: ballistic/space, aviation, nuclear, armaments, power machines, shipbuilding, transportation machinery, nanotechnology, and bio- and genetic engineering. The two priorities of building an innovation/hi-tech economy and reviving the old industrial economy also needed to be coordinated.

• 18. (SBU) Leonid Grigoriev presented a more balanced assessment of current economic policies and credited the

macroeconomic stability of recent years and improvements in the business climate to prudent economic policies. However, he painted a dire picture for Russia's economic future if these immediate challenges were not addressed: creating sustainable sources of growth, increasing the value-added component to production, stimulating innovation, leveling out the regional disparities in development, and reducing the energy-intensiveness of production. After laying out four different scenarios for Russia's future development, using his terms -- Energy Rents, Mobilization, Inertia, and Modernization -- he concluded that the most difficult, but promising course is the Modernization scenario. Under this framework, the three main actors -- the State, civil society, and business -- will compromise and exercise self-restraint to balance their parochial interests and achieve modernization of the country. Grigoriev was not optimistic that this scenario will win out, and gave it only a five percent chance. He viewed the Inertia scenario -- the current course -- as the most likely in the next eight years.

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¶ 9. (SBU) All three authors concluded that modernization cannot occur without a broad base coalition. This reflects the authors' main criticism of the current economic course: the lack of an overall strategy and the growing alienation of the population from government policies. All three pointed to the perception of a growing income disparity between the rich and the poor as a troubling development that required a change in policies. Another common factor in all three reports was their use of polling data to support their arguments.

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COMMENT

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¶ 10. (C) The three think-tankers were quite adamant in their conversation with us that their policy prescriptions were liberal in nature. This appears to reflect their conviction that markets will have to play a role in Russia's modernization. However, all three authors also advocate a

MOSCOW 00002527 003 OF 003

larger role for the state. For Grigoriev, the role appears limited to coordinating coalition building, whereas Grinberg supports state policies that pick winners and losers. As Troika Dialog chief economist Gavrilov puts it, the next administration will have to exercise greater professionalism and discipline, having less room to maneuver with declining budget surpluses, growing energy constraints, and neglected reforms in the social services sector. The next economic team will face the unfinished business of the Putin years, including, revamping the pension, health, housing, and education system, with less resources to solve them. With these challenges, it's not surprising that Grigoriev gives the modernization scenario only an outside chance of success.

End comment.

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